AGANANG LOCAL MUNICIPALITY

FINAL BUDGET

2015/16 MTREF

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1.1 Mayors Report

1.2 Council Resolutions

The Council of Aganang Local Municipality has met to consider the final budget of the municipality for the 2015/16 to 2017/18 financial year. The Council approved and adopted the following resolutions after community participation process:

1.2.1 The Council , acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:

1.2.1.1 The budget of the municipality for the financial year 2015/16 and the single-year capital appropriations as set out in the following tables:

1.2.1.2 Budgeted Financial Performance (revenue and expenditure by standard classification)

1.2.1.3 Budgeted Financial Performance (revenue and expenditure by municipal vote)

1.2.1.4 Budgeted Financial Performance (revenue by source and expenditure by type)

1.2.1.5 Single-year capital appropriations by municipal vote and standard classification and associated funding by source

1.2.2 The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:

1.2.2.1 Budgeted Financial Position

1.2.2.2 Budgeted Cash Flows

1.2.2.3 Cash backed reserves and accumulated surplus reconciliation

1.2.2.4 Asset management

1.2.2.5 Basic service delivery measurement

1.2.3 The Council, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2014:

1.2.3.1 The tariffs policy and the tariff structure

1.2.3.2 The tariffs for sanitation services

1.3 Executive Summary

The budget of the municipality was prepared taking into consideration the Municipal Budget and reporting regulations, the National Treasury circulars. The application of sound financial management principles for the compilation of the municipality's budget is essential and critical to ensure that the municipality remains financially sound and that the municipality is able to provide services to all communities in a sustainable manner.
The municipality has reviewed the service delivery priorities as part of this year's planning and budget process.
The municipality is in the process of ensuring that revenue collection is maximised by ensuring that the revenue enhancement strategy is implemented. The municipality has reviewed its non-priority spending to ensure that the funds are allocated to the benefit of the communities for the purposes of service delivery.

The compilation of the 2015/16 MTREF was not without challenges and the following is a summary:

- The high employee cost due to prioritised critical positions to address staff shortages which is the main contributor to high operating expenditure
- Service delivery backlog against the available resources
- Lack of revenue base and lack of land for development
- The ever increasing operating expenditure that lower our capital spending
- The proposed disestablishment of the municipality by Minister of Cooperative Governance and Traditional Affairs

The following budget principles and guidelines directly informed the compilation of the tabled 2015/16 MTREF:

- The 2014/15 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2015/16 budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Tariff increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;
- The spending on non-core activities has been reviewed and austerity measures have been introduced to reduce spending on travelling, overtime, events as per the cost containment measures.
- Long term contracts were also scrutinised based on the proposed measures and its consequences as contracts should not burden the municipalities that boundaries will be re-determined.

In view of the aforementioned, the following table is a consolidated overview of the proposed 2015/16 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2015/16 MTREF

Description	Adjustment Budget 2014/15	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Total Operating Revenue	100 312	114 695	118 737	121 775
Total Operating Expenditure	108 812	118 931	123 544	127 284
Surplus/(Deficit) for the year	**(8 500)**	**(4 235)**	**(4 807)**	**(5 508)**
Total Capital Expenditure	73 618	66 913	63 893	59 026

The operating expenditure for the 2015/16 financial year amounts to R118 million. The operating expenditure for the 2014/15 amounts to R105 312 million. The operating expenditure has grown by 12.93 % compared to the 2014/15 financial year. The operating expenditure for the outer years has increased by 3.7% and increased by 3.03% for 2016/17 and 2017/18 respectively. The municipality has eliminated spending on non-priority items or activities to give way for service delivery priorities. The repairs and maintenance and employee cost are the main contributors to increase in all financial years.

The capital budget of R63 million for 2015/16 has decreased compared to the 2014/15 financial year. The decrease is as a result of increases in operating expenditure such as employee costs. The most capital projects of the municipality are single-year projects which run for a period of one year. The capital projects of the municipality are funded by conditional grants and internally generated funds.

The increase in terms of the employee cost is not within the National Treasury input of 4.4% for 2015/16 financial year which was set in consideration of the salary and wage agreement between the employer and the labour unions which is not valid for the 2015/16 financial year. The municipality has considered the advice as outlined in MFMA circular 74 and due to a number of critical vacant posts on the organisational structure, had to prioritise positions and that had a bearing in terms of the critical matter of the set limit for increasing the salaries of the employees.
The municipality has budgeted for an increase of 7.5% as currently the negotiations are no longer within the 4.4% as proposed by the National Treasury. At the time of finalising the budget the negotiations were at 5.9%, an offer which is rejected by the unions. The available information at the conclusion of budget process shows a sign of utilising percentage that is above the guide as per the circular.

1.3 Operating Revenue Framework

In these tough economic times strong revenue management is fundamental to the financial sustainability of the municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality is currently looking at enhancing the revenue by developing a revenue enhancement strategy to ensure that revenue streams that were identified in the past are implemented. There are challenges of collecting operating revenue from communities.
The municipality's revenue enhancement strategy will be built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Local economic development
- Efficient revenue management, which aims to ensure revenue collection is maximised
- Achievement of full cost recovery of specific user charges
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policy

The following table is a summary of the 2015/16 MTREF (classified by main revenue source):

Summary of revenue classified by main revenue source

As the municipality is depending on grants from the National and Provincial government for the purpose of funding the operating and capital expenditure, revenue from own sources contribute a minimal percentage to the coffers of the municipality. The following table outline the main sources of revenue:

Description	2011/12	2012/13	2013/14	Current year 2014/15			Budget Year	Budget Year +1	Budget Year +2
	Audited	Audited	Audited	Original	Adjusted	Full Year Forecast	2015/16	2016/17	2017/18
Interest – External Investment	1,321	2,284	2,155	2,100	2,100	2,100	1,800	1,565	1,205
Transfers Recognised-Operational	64,931	77,973	105,112	81,840	80,542	80,542	96 357	95 427	98 334

Growth in revenue by main revenue source

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating revenue, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

The main revenue source for the municipality is grants of which the biggest portion is equitable shares. .

Operating grants and transfers totals R161 889million in the 2015/16, R162 330 and R160 664 by 2017/18.

Operating Transfers and Grant Receipts

The rates and tariff revision are undertaken after consideration of different factors relevant to the geographic spread of the municipality. The following were considered during the tariff and rates increase; local economic conditions, cost drivers, affordability of services and poverty and indigents. As the municipality is not profit driven, the breakeven of costs and revenue will be an acceptable ratio unlike providing service at a loss and an ever increasing debtor's book which will be close to impossible and costly to collect.

The current challenge facing the municipality is collection of revenue from property rates which the municipality has implemented as required by the Municipal Property Rates Act (MPRA). The municipality is currently engaging departments with a view of collecting the debt relating to property rates.

The budget for property rates for the 2015/16 financial year is budgeted at a net amount of R 4.2 million and the 2015/16 financial year. In consideration of the rural setting of the municipality where land is in full control of the traditional authorities the municipality found it difficult to bill households for property rates. The approach that the municipality has taken has a reduction in amount expected for property rates.

The National Treasury has urged all municipalities to ensure that tariff structures are cost reflective by 2014.

A tariff increase of 5.5% from 1 July 2015 will be applicable for services that the municipality is rendering have been proposed. The municipality has also reviewed the rental charges for market stalls and increased the tariffs with more than the inflation rate as a result of municipality been unable to breakeven.

1.5 Operating Expenditure Framework

The Municipality's expenditure framework for the 2015/16 budget and MTREF is informed by the following:

- The priority focus area should be given to repairs and maintenance of infrastructure assets. Elimination of non-core expenses should be done. Expenses such as entertainment, gala dinners, excessive catering, etc.
- Salaries and Wages to be kept outside the advice from National Treasury due to current negotiation stage of 5.9% proposed by the employer representative SALGA

Summary of operating expenditure

The budgeted allocation for employee related costs for the 2015/16 financial year totals R52 million, which equals 44% of the total operating expenditure. The three year collective SALGBC agreement is not valid for the 2015/16 financial year hence negotiations are currently underway, salary increases have been factored into this budget at a percentage increase of 7.5 per cent for the 2015/16 financial year thou current positions has pushed the percentage to be far outside the national treasury proposed increase. An annual increase of 6 per cent has been included in the two outer years of the MTREF and that also is not visible as there are new positions that are proposed for the financial year. As part of the municipality's cost reprioritization/containment and cash management strategy vacancies have been significantly rationalized downwards and only critical positions were considered for filling.

The annual increase for senior managers has been factored using the same percentage as other staff as the annual gazette was not available at the time the budget was tabled.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the municipality's budget.

The provision of debt impairment was considered but not effected based on the fact that our debtors' book consists mainly of government debt.

As the municipality is not the authority for water or electricity, there is no budget for materials and bulk purchases. The municipality does not have the maintenance team for the purpose of maintaining or repairing assets where we buy materials in bulk hence there is no budget for materials and bulk purchases as our maintenance is done through appointment of service providers.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R4.2 million for the 2015/16 financial and equates to 3.58 per cent of the total operating expenditure. Compared to the original budget for the 2013/14 the depreciation estimates have dropped as a result of transfer of roads to Roads Agency Limpopo.

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. Growth has been limited to 6 per cent for 2015/16 and a decline in 2016/17 financial year, indicating that significant cost savings have been already realised.

Priority given to repairs and maintenance

Aligned to the priority being given to preserving and maintaining the municipality's current infrastructure, the 2015/16 budget and MTREF provide for growth in the area of asset maintenance. In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as payment of service providers and purchases of materials. Maintenance of roads and municipal buildings have been prioritised for the MTREF period even thou in terms of roads we have transferred to the Roads to Roads Agency Limpopo (RAL).

During the compilation of the 2015/16 MTREF operational repairs and maintenance was identified as a strategic imperative owing to the gravel roads that are within the boundaries of the municipality. The total allocation for 2015/16 equates to R7.5million and continues to grow to R9.5million and declined to R6.7 million over the MTREF.

1.3.1 Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the municipality's Indigent Policy. The target is to register more indigent households during the MTREF, a process reviewed annually. Detail relating to free services, cost of free basis services, revenue lost owing to free basic services as well as basic service delivery measurement is contained in MBRR A10 (Basic Service Delivery Measurement). In terms of water provision the municipality is not the authority and as a result the whole municipality is not billed for consumption of water.

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act and funds from the Capricorn District Municipality for acceleration of free basic water to communities.

1.6 Capital expenditure

For 2015/16 an amount of R66.9 million has been appropriated for the development of infrastructure which represents 36.8% of the total budget. In the outer years this amount totals R 63.8 million, and R 59 million respectively for each of the financial years.

Total new assets represent 100% per cent or R66 million of the total capital budget while refurbishment of assets equates to 0% as priorities are been reviewed. Further detail relating to asset classes and proposed capital expenditure is contained in MBRR A9 (Asset

Management). In addition to the MBRR Table A9, MBRR Tables SA34a, b, c provides a detailed breakdown of the capital programme relating to new asset construction, capital asset renewal as well as operational repairs and maintenance by asset class .Some of the salient projects to be undertaken over the medium-term includes, amongst others:

Upgrading of Mohlonong to Kalkspruit phase 1	R8.6 million
Lonsdale via Flora to Percy Clinic Phase 1-MIG	R10.7 million
Electrification of post connection stands	R8 million
Construction of Low level bridges	R2 500 million
Construction of landfill site	R8 million
Upgrading of Mohlonong Stadium	R5 million